

HEALTHINSIGHT
Consolidated Financial Statements
Years Ended June 30, 2006 and 2005

HEALTHINSIGHT
Consolidated Financial Statements
June 30, 2006 and 2005

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SMITH POWELL AND COMPANY, LLC
CERTIFIED PUBLIC ACCOUNTANTS

GODDARD-ARBEY COMPANY
GODDARD, SUNVILLE & GRIFFIN

1912-1951
1951-1964

SUNVILLE, GRIFFIN & ELLIS 1964-1981
SUNVILLE, GRIFFIN & SMITH 1981-1997

INDEPENDENT AUDITORS' REPORT

Board of Trustees
HealthInsight
Salt Lake City, Utah

We have audited the accompanying consolidated statements of financial position of HealthInsight (a non-profit organization) and its related entity as of June 30, 2006 and 2005, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of HealthInsight and its related entity's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HealthInsight and its related entity as of June 30, 2006 and 2005, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 16, 2006 on our consideration of HealthInsight and its related entity's internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audits were performed for the purpose of forming an opinion on the basic consolidated financial statements of HealthInsight and its related entity taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Smith Powell & Company LLC

November 16, 2006

HealthInsight
Consolidated Statements of Financial Position
June 30, 2006 and 2005

ASSETS	<u>2006</u>	<u>2005</u>
Current Assets		
Cash and Cash Equivalents	\$ 923,852	\$ 1,538,302
Investments (Note 3)	997,380	491,049
Accounts Receivable - Federal Direct Contracts	1,111,748	1,035,588
Accounts Receivable - Federal Pass-Through, Other Contracts and Grants	155,170	466,531
Accounts Receivable - Employees & Other	11,719	1,700
Note Receivable Affiliated Company - Current (Note 12)	0	145,114
Less Allowance for Bad Debt (Note 12)	0	(145,114)
Net Unconditional Promise to Give (Note 10)	13,213	23,103
Prepaid Expenses	<u>122,521</u>	<u>104,929</u>
Total Current Assets	<u>3,335,603</u>	<u>3,661,202</u>
Property and Equipment		
Furniture and Equipment	854,592	754,978
Leasehold Improvements	152,839	88,928
Capital Lease Equipment	<u>0</u>	<u>72,155</u>
Total at Cost	1,007,431	916,061
Less Accumulated Depreciation and Amortization	<u>(748,872)</u>	<u>(792,471)</u>
Net Property and Equipment	<u>258,559</u>	<u>123,590</u>
Long Term and Other Assets		
Deposits	25,475	17,817
Note Receivable Affiliated Company - Long Term (Note 12)	0	0
Investment in Affiliated Company and Other Investments (Note 4)	<u>20,343</u>	<u>20,719</u>
Total Long Term and Other Assets	<u>45,818</u>	<u>38,536</u>
TOTAL ASSETS	<u>\$ 3,639,980</u>	<u>\$ 3,823,328</u>
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 126,091	\$ 198,973
Unearned Revenue	253,103	257,544
Accrued Vacation Wages	215,015	215,640
Accrued Payroll Expenses	<u>249,165</u>	<u>238,100</u>
Total Current Liabilities	<u>843,375</u>	<u>910,257</u>
Net Assets		
Unrestricted	<u>2,796,605</u>	<u>2,913,071</u>
Total Net Assets	<u>2,796,605</u>	<u>2,913,071</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,639,980</u>	<u>\$ 3,823,328</u>

HealthInsight

Consolidated Statements of Activities For The Years Ended June 30, 2006 and 2005

UNRESTRICTED NET ASSETS	2006	2005
Revenue and Support		
Federal Direct Contracts	\$ 6,293,104	\$ 6,037,706
Federal Pass-Through	1,033,336	1,771,415
Other Contracts and Grants	70,582	447,486
Contributions	2,079	50,880
Investment Return (Note 3)	148,748	81,473
Gain (Loss) on Sale of Equipment	(4,237)	1,659
Total Unrestricted Revenue and Support	7,543,612	8,390,619
Expenses (See Note 9 for Functional Classification)		
Accounting and Auditing	\$ 36,315	\$ 36,400
Bad Debt Expense	0	145,113
Board of Trustee Fees	19,600	26,500
Data Processing and Line Charges	15,844	29,655
Depreciation and Amortization	93,077	118,401
Dues, Registration and Subscriptions	129,696	154,966
Employee Education, Relations and Welfare	11,263	14,093
Insurance - Premiums for Employee Health, Disability and Life	374,563	381,430
Insurance - Corporate	85,782	93,360
Legal	5,859	9,522
Maintenance	50,285	43,094
Meetings and Conferences	177,257	126,191
Miscellaneous	66,045	106,137
Office Supplies	61,216	61,206
Other Outside Professional Services	93,969	108,907
Payroll Taxes	339,665	323,527
Pension (Note 5)	380,224	352,318
Physician Consultants	141,247	302,168
Postage and printing	82,099	77,748
Recruiting	39,314	0
Rent - Occupancy (Note 8)	356,601	312,322
Rent - Equipment	14,760	10,142
Salaries	4,315,706	4,027,308
Small Equipment Purchases (Note 7)	31,048	24,320
Subcontract	146,140	667,316
Telephone	69,361	72,148
Temporary Office Labor	42,008	35,696
Training	26,570	26,587
Travel	342,307	330,901
Utilities	111,881	82,136
Total Expenses	7,659,702	8,099,612
Increase (Decrease) in Unrestricted Net Assets from Operations	(116,090)	291,007
Other Change in Unrestricted Net Assets		
Equity in Net Income (Loss) of Affiliated Company and		
Other Investments (Notes 4)	(376)	(724)
Change in Net Assets	(116,466)	290,283
Net Assets at Beginning of Year	2,913,071	2,622,788
NET ASSETS AT END OF YEAR	\$ 2,796,605	\$ 2,913,071

HealthInsight

Consolidated Statements of Cash Flows For The Years Ended June 30, 2006 and 2005

CASH FLOWS FROM OPERATING ACTIVITIES	2006	2005
Change in Net Assets	\$ (116,466)	\$ 290,283
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	93,077	118,401
Bad Debt Expense	0	145,113
(Gain) Loss on Sale of Equipment	4,237	(1,659)
(Gain) Loss on Sale of Investment	(1,462)	(1,990)
Unrealized (Gain) Loss on Investments	(74,586)	(37,441)
Equity Share of Net (Gain) Loss from Investment in Affiliate and Other Investment	376	724
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable - Direct Federal Contracts	(76,160)	(80,051)
(Increase) Decrease in Accounts Receivable - Federal Pass- Through, Other Contracts and Grants	311,361	(134,343)
(Increase) Decrease in Net Unconditional Promise to Give	9,890	(5,526)
(Increase) Decrease in Accounts Receivable - Other	(10,019)	609
(Increase) in Prepaid Expenses	(17,592)	(32,375)
(Increase) Decrease in Deposits	(7,658)	1,190
(Decrease) Increase in Accounts Payable	(72,882)	13,912
(Decrease) Increase in Unearned Revenue	(4,441)	84,714
(Decrease) Increase in Accrued Vacation Wages	(624)	8,932
Increase in Accrued Payroll Expenses	11,065	17,583
Net Cash Provided by Operating Activities	<u>48,116</u>	<u>388,076</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the Sale of Mutual Funds	243,228	39,472
Investment in Mutual Fund	(654,831)	(271)
Investment in Affiliate and Other	0	(21,300)
Reinvested Dividends and Capital Gain Distributions	(18,680)	(20,164)
Loans Made to Affiliated Company	0	(52,000)
Proceeds from the Sale of Equipment	2,357	1,754
Acquisition of Property and Equipment	(234,640)	(60,794)
Net Cash Used in Investing Activities	<u>(662,566)</u>	<u>(113,303)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital Lease Obligation Principal Payments	0	(15,909)
Net Cash Used from Financing Activities	0	(15,909)
Net Increase in Cash and Cash Equivalents	(614,450)	258,864
Cash and Cash Equivalents Beginning of Year	<u>1,538,302</u>	<u>1,279,438</u>
CASH AND CASH EQUIVALENTS END OF YEAR	<u>\$ 923,852</u>	<u>\$ 1,538,302</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Investment Income Received	<u>\$ 40,867</u>	<u>\$ 25,046</u>
Interest paid	<u>\$ 0</u>	<u>\$ 0</u>

HealthInsight
Consolidated Notes to Financial Statements
June 30, 2006 and 2005

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Activities - HealthInsight is a nonprofit organization which is tax exempt under Section 501(c)(3) of the Internal Revenue Code as a charitable organization. HealthInsight serves as a community resource for health care quality improvement and quality assurance activities. This work is being performed primarily in the states of Utah and Nevada. The Organization's federal identification number is 87-0303872.

Contributions to the Organization qualify for the charitable contributions deduction to the extent provided by section 170 of the Internal Revenue Code.

- B. Consolidation of Related Entity - The Organization has adopted the provisions of the American Institute of Certified Public Accountants Statement of Position No. 94-3 (SOP 94-3) entitled *Reporting of Related Entities by Not-for-Profit Organizations*. SOP 94-3 states that a not-for-profit organization should consolidate another not-for-profit organization if the reporting not-for-profit organization has both control of the other not-for-profit organization, as evidenced by either a majority ownership or a majority voting interest in the board of trustees of the other not-for-profit organization, and an economic interest in the other not-for-profit organization.

The related entity is identified as:

HealthInsight of Nevada

The related entity was incorporated July 21, 2001 under Nevada nonprofit statutes, with the intent of being designated a Nevada in-state PRO to comply with rules set forth by the Federal Department of Health & Human Services. The related entity received its tax exempt status under section 501(c)(3) during the year ended June 30, 2004.

- C. Basis of Accounting - Assets, liabilities, revenues and expenses are recognized on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.
- D. Unrestricted and Restricted Revenue and Support - Contributions and grants are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. When a restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- E. Grants and Contributions - Grants and contributions, including unconditional promises to give, are recorded as receivables and as revenue in the period in which the donor's commitment to give is established. All grants and contributions are available for unrestricted use unless specifically restricted by the donor. Unconditional promises to give (grants and contributions) are recorded at their net realizable value.

HealthInsight
Consolidated Notes to Financial Statements
June 30, 2006 and 2005

- F. Cash and Cash Equivalents - For financial statement purposes, the Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.
- G. Investments - Investments consist of mutual funds and equity securities, and are carried at the quoted market value. Investment return consists of investment income, as well as realized and unrealized gains and losses.
- H. Property, Equipment and Depreciation - Property and equipment consist of furniture and equipment and leasehold improvements. Assets are recorded at cost and are being depreciated using the straight-line method over their estimated useful lives from three to five years.
- Maintenance, repairs and minor replacements are charged to expense as incurred. Major repairs and replacements that prolong the life of an asset are capitalized. The organization's policy is to capitalize amounts greater than \$500.
- I. Investments in Affiliated Company and Other Investments - The Organization accounts for its investment in an affiliated company and an LLC using the equity method. Its investment in a country club membership is accounted for using the cost method
- J. Reclassifications - Certain 2005 amounts have been reclassified to conform to classifications adopted in 2006. The reclassifications have no effect on previously stated income.
- K. Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
- L. Fair Values of Financial Instruments - The Organization's financial instruments include cash and investments. The Organization estimates that the fair value of all financial instruments at June 30, 2006 does not differ materially from the aggregate carrying values of its financial instruments recorded in the statement of financial position. The estimated fair value amounts have been determined by the Organization using available market information. The market values are not necessarily indicative of the amounts that the Organization could realize in a current market exchange.

HealthInsight

Consolidated Notes to Financial Statements

June 30, 2006 and 2005

NOTE 2 - CONCENTRATIONS OF RISK

Business Risk

Direct federal and federal pass-through funds accounted for approximately 97% and 93% of the Organization's unrestricted revenues for the years ended June 30, 2006 and 2005 respectively.

Cash and Cash Equivalents

Cash and cash equivalents that potentially subject the Organization to credit risk included deposits in a financial institution that exceeded the \$100,000 U.S. Federal Deposit Insurance Corporation insurance limit by \$693,266 and \$1,303,600 in 2006 and 2005, respectively. In addition, cash in money market account that is not FDIC insured totaled \$161,007 and \$45,959 in 2006 and 2005, respectively.

NOTE 3 - INVESTMENTS

The Organization's mutual fund and stock investments are stated at fair value and are summarized as follows:

	<u>June 30, 2006</u>			<u>June 30, 2005</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Mutual Funds	\$ 627,993	\$ 664,048	\$ 664,048	\$ 257,046	\$ 286,122	\$ 286,122
Common Stock	0	272,470	272,470	0	204,927	204,927
Real Estate Investment Trusts	60,842	60,862	60,862	0	0	0
	<u>\$ 688,835</u>	<u>\$ 997,380</u>	<u>\$ 997,380</u>	<u>\$ 257,046</u>	<u>\$ 491,049</u>	<u>\$ 491,049</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended June 30:

	<u>2006</u>	<u>2005</u>
Investment Income	\$ 42,867	\$ 25,046
Realized Gains and Capital Gain Dividends	31,295	18,986
Unrealized Gains	<u>74,586</u>	<u>37,441</u>
	<u>\$ 148,748</u>	<u>\$ 81,473</u>

HealthInsight
Consolidated Notes to Financial Statements
June 30, 2006 and 2005

NOTE 4 - INVESTMENT IN AFFILIATED COMPANY AND OTHER INVESTMENTS

Investment in Affiliated Company

Subsequent to June 30, 2005, Q-Mark and its shareholders, including the Organization, entered into an agreement whereby all shareholders agreed to sell their stock and notes to a third party purchaser for a nominal amount. In addition, the Organization and other note holders agreed to reduce the principal amounts owed to them and to forgive all accrued but unpaid interest on the notes. Due to the sale of its Q-mark stock and the promissory note reduction agreement, no income or loss was recognized by the Organization with respect to Q-mark for the year ended June 30, 2006.

Other Investments

The other investments held by the Organization consist of a 25% interest in a Limited Liability Company (LLC), and an investment in a country club membership. The LLC investment is accounted for using the equity method. The country club membership investment was purchased in 2005 and is accounted for using the cost method. The total carrying value of these investments was \$20,343 and \$20,719 at June 30, 2006 and 2005. It is not practicable to estimate the fair market value of these investments.

The Organization's share of net income (loss) reported on the Statement of Activities as of June 30, 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Share of Coral LLC Net Income (Loss)	\$ (376)	\$ (724)
Equity in Net Income (Loss) of Affiliated Company and Other Investment	<u>\$ (376)</u>	<u>\$ (724)</u>

NOTE 5 - EMPLOYEE RETIREMENT PLANS

The Organization has a retirement plan that covers all employees who have completed a minimum service requirement. Benefits under the plan are limited to the balance in participants' accounts. The plan combines a defined contribution feature and a 401(k) elective salary deferral feature. Under the 401(k) provision, employees can contribute up to 100% of their compensation subject to the maximum amounts allowed under federal tax law. The defined contribution feature requires that the Organization contribute an amount equal to 7.6% of each employees's compensation up to the Social Security wage base (the Social Security wage base is equal to 40% of the maximum amount of wages subject to Social Security tax), plus 11.9% of compensation over the Social Security wage base. However, the total contribution from the Organization is limited to 15.2% of compensation up to the Social Security wage base. The Organization's contributions to the plan included in expenses were \$380,224 and \$352,318 for the years ended June 30, 2006 and 2005, respectively. The Organization may make additional optional matching and discretionary contributions, not to exceed federal tax law limitations. For the years ended June 30, 2006 and 2005 the Organization did not make additional optional matching or discretionary contributions.

HealthInsight
Consolidated Notes to Financial Statements
June 30, 2006 and 2005

NOTE 6 - GOVERNMENT OWNED PROPERTY

Standard Data Processing System (SDPS) equipment required for Utah and Nevada Medicare operations are provided by Medicare. The title of the SDPS equipment remains with the Government. The equipment will be returned to the Government when HealthInsight concludes work on Medicare operations, or when the Government upgrades the equipment.

NOTE 7 - SMALL EQUIPMENT EXPENSE

Certain contracts require HealthInsight to purchase equipment. The contract revenue includes reimbursement to HealthInsight for the equipment purchases. Equipment purchased in this circumstance remains property of the contracting agency. These purchases are not included in HealthInsight's schedule of Property and Equipment and are not depreciated, but are considered an expense, and are classified as a small equipment expense.

NOTE 8 - DESCRIPTION OF OPERATING LEASE ARRANGEMENTS

The organization leases its office facilities in Reno and Las Vegas Nevada, and Salt Lake City Utah under operating leases expiring in various years through 2011.

The lease of the Salt Lake City facility covers the period from July 1, 2004 through September 30, 2008 with an option to renew an additional four years. The Las Vegas lease covers the period from December 1, 2005 through February 28, 2011 with options to renew for additional periods of three years. The Reno facility was closed by the Organization during 2005. The Organization has entered into an agreement as sub-lessor for a small amount of office space in Reno, for the period from September 15, 2006 to September 14, 2008 with options to renew for additional 12-month periods.

The aggregate minimum future rental payments under noncancellable operating leases having remaining terms in excess of one year as of June 30, 2006 are:

Year Ended June 30:	
2007	\$ 457,331
2008	494,033
2009	317,844
2010	264,206
2011	<u>179,612</u>
Total Minimum Future Rental Payments	<u>\$ 1,713,026</u>

Total rental expense for all operating leases was \$356,601 and \$312,322 for the years ended June 30, 2006 and 2005 respectively.

HealthInsight
Consolidated Notes to Financial Statements
June 30, 2006 and 2005

NOTE 9 - FUNCTIONAL EXPENSES

The costs of providing the various programs and activities have been summarized by their natural classification in the statement of activities. In addition, these costs have been allocated among the programs and supporting services benefitted as follows:

Program Expenses:	<u>2006</u>	<u>2005</u>
Quality Improvement	\$ 4,933,465	\$ 5,013,989
Quality Assurance	1,303,142	1,254,360
Community Education	315,139	606,555
General and Administrative	1,107,956	1,224,708
Fund-raising	<u>0</u>	<u>0</u>
Totals	<u>\$ 7,659,702</u>	<u>\$ 8,099,612</u>

NOTE 10 - PROMISE TO GIVE

Unconditional promises to give, at June 30, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Receivable in less than one year	<u>\$ 13,213</u>	<u>\$ 23,103</u>

NOTE 11 - LINE OF CREDIT

The Organization has a \$500,000 line of credit with a bank, all of which was unused at June 30, 2006. The interest rate is equal to the bank's prime rate. The maturity date of the line is April 2, 2007.

NOTE 12 - NOTE RECEIVABLE - AFFILIATED COMPANY

The Organization had loaned \$210,000 plus accrued unpaid interest of \$2,000 to an affiliated company (Q-Mark) as of June 30, 2005. Subsequent to June 30, 2005, Q-Mark was liquidated and its stock sold to a third party (see Note 4). As part of the agreement, the Organization and other note holders agreed to reduce the principal amounts owed to them and to forgive all accrued but unpaid interest on the notes. As a result the total amount owed to the Organization on the note was reduced to \$129,661. Payment of the note is subject to an earn-out provision whereby for the period July 1, 2006 through June 30, 2015 Q-mark will be required to use 40% of its taxable income, if any, to repay holders of its notes which include other entities in addition to the Organization. The notes do not accrue interest. Due to the financial history of Q-mark and other factors, management believes collection of the note is unlikely. Accordingly, an allowance has been established for the full amount of the note at June 30, 2005.

HealthInsight
Consolidated Schedule of Expenditures of Federal Awards
For The Year Ended June 30, 2006

<u>Grantor / Program Title</u> <u>Federal Grantor / Pass-Through</u>	<u>Federal</u> <u>CFDA</u> <u>Number</u>	<u>Agency or</u> <u>Pass-through</u> <u>Number</u>	<u>Federal</u> <u>Expenditures</u>
U.S. Department of Health and Human Services through the Centers for Medicare & Medicaid Services (CMS):			
Direct Award - Utah Medicare	93.773	500-99-UT01	\$ 3,004,231
Direct Award - Nevada Medicare	93.773	500-99-NV01	<u>3,334,824</u>
Total Direct Awards			<u>6,339,055</u>
Sub-Contract through CMS	93.773	500-02-CA02 04002	254,187
U.S. Department of Health and Human Services through the Centers for Disease Control & Prevention:			
Pass-through from the University of Utah	93.283	RS1/CCR820631	<u>236,667</u>
Total Pass-through Awards			<u>490,854</u>
Total - U.S. Department of Health and Human Services			<u>\$ 6,829,909</u>

* Major Program

Note: The Schedule of Expenditures of Federal Awards is prepared using the accrual basis of accounting.

SMITH POWELL AND COMPANY, LLC

CERTIFIED PUBLIC ACCOUNTANTS

GODDARD-ABBEY COMPANY
GODDARD, SENEVILLE & GRIFFIN

1912-1951
1951-1964

SENEVILLE, GRIFFIN & ELLIS 1964-1981
SENEVILLE, GRIFFIN & SMITH 1981-1997

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
HealthInsight
Salt Lake City, Utah

We have audited the consolidated financial statements of HealthInsight and its related entity as of and for the year ended June 30, 2006, and have issued our report thereon dated November 16, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether HealthInsight and its related entity's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Governmental Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered HealthInsight and its related entity's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weakness. However, we noted other matters involving the internal control over financial reporting that we have reported to management of HealthInsight and its related entity in a separate letter dated November 16, 2006.

This report is intended solely for the information of the board of trustees, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Smith Powell & Company LLC

November 16, 2006

SMITH POWELL AND COMPANY, LLC
CERTIFIED PUBLIC ACCOUNTANTS

GODDARD-ABREY COMPANY
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**REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

Board of Trustees
HealthInsight
Salt Lake City, Utah

Compliance

We have audited the compliance of HealthInsight and its related entity with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. HealthInsight and its related entity's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of HealthInsight and its related entity's management. Our responsibility is to express an opinion on HealthInsight and its related entity's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about HealthInsight's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of HealthInsight and its related entity's compliance with those requirements.

In our opinion, HealthInsight and its related entity complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of HealthInsight and its related entity are responsible for establishing and maintaining effective internal controls over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered HealthInsight and its related entity's internal controls over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the board of trustees, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Smith Powell & Company LLC

November 16, 2006

HealthInsight
Consolidated Schedule of Findings and Questioned Costs
June 30, 2006

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the consolidated financial statements of HealthInsight and its related entity for the year ended June 30, 2006.
2. There were no reportable conditions relating to the audit of the consolidated financial statements.
3. No instances of noncompliance material to the consolidated financial statements of HealthInsight and its related entity, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No reportable conditions were disclosed during the audit of internal control over major federal award programs.
5. The auditors' report on compliance for the major federal award programs for HealthInsight and its related entity expresses an unqualified opinion on all major federal programs.
6. There were no audit findings relative to the major federal award programs for HealthInsight and its related entity which are required to be reported in this Schedule.
7. Other matters involving the internal control over consolidated financial reporting and its operations were communicated in a separate letter to management.
8. For purposes of the audit, the Utah and Nevada Medicare contracts and the sub-contract awarded through LUMETRA, CFDA# 93.773 were considered to be major programs.
9. The dollar threshold we used to distinguish between Type A and Type B programs was \$300,000.
10. HealthInsight qualified as a low-risk auditee under § __.530 of *OMB Circular A-133*.

FINDINGS RELATED TO THE FINANCIAL STATEMENT AUDIT

The audit disclosed no findings related to the consolidated financial statements which are required to be reported in accordance with GAGAS.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS

The audit disclosed no findings or questioned costs related to major federal award programs.

HealthInsight
Summary Schedule of Prior Audit Findings
June 30, 2006

CURRENT STATUS:

Auditor found no audit findings for the years then ended June 30, 2006.